

## **DEFENSE CONTRACT AUDIT AGENCY**

### **AUDIT PROGRAM FOR COST ACCOUNTING STANDARD NO. 411 ACCOUNTING FOR ACQUISITION COSTS OF MATERIAL**

Contractor's Name: \_\_\_\_\_

Assignment Number: \_\_\_\_\_

Field Audit Office: \_\_\_\_\_

Date Assigned: \_\_\_\_\_

Auditor Assigned: \_\_\_\_\_

\_\_\_\_\_  
Supervisor's Signature Indicating  
Approval (Obtain Signature Before  
Starting Audit)

Note: Those steps not required should be marked "not applicable" (N/A). Portions of the audit which are covered in other assignments (e.g. incurred cost, Disclosure Statement, and internal control audits) should be referenced at the appropriate place in this program.

#### **A. PURPOSE AND SCOPE**

1. The purpose of CAS compliance auditing is to determine if the contractor's policies, procedures, and practices used to estimate, accumulate, and report costs on government contracts and subcontracts comply with the requirements of CAS. CAS 411 establishes criteria for the accounting of the acquisition costs of material. The standard does not cover accounting for the acquisition costs of tangible capital assets nor accountability for government furnished materials. FAR 52.230-2, Cost Accounting Standards, requires the contractor to comply with the CAS 411 criteria.
2. The scope of this audit should generally be limited to current contractor fiscal year CCFY. Testing of prior years' transactions, especially unaudited fiscal years, is acceptable to assure that no system changes were made and no noncompliances exist. For efficiency, CAS compliance testing, if possible, should be performed concurrently with tests for compliance with FAR and contract terms.
3. This program is intended to provide for the proper planning, performance, and reporting on the contractor's compliance with CAS 411. The audit steps in the program should reflect a documented understanding between the auditor, the technical specialist, and/or the supervisor as to the scope required to comply in an efficient and effective manner

with generally accepted auditing standards and DCAA objectives. The program steps are intended as general guidance and should be tailored as determined by audit risk.

## **B. AUDIT PLANNING CONSIDERATIONS**

1. Before beginning any CAS compliance audit, the auditor should first determine the contractor is subject to the CAS coverage. If the standard is not applicable to the contractor or noncompliance with the standard overall has no significant impact on government contract costs, there is no need to test whether the contractor is complying with the standard. The decision to not test for CAS compliance should be documented (see CAM 8-305 and DoD CAS Working Group Guidance Paper 76-7).
2. Materiality (see 48 CFR 9903.305) and audit risk assessment (including Internal Control Audit Planning Summary (ICAPS) for major contractors, SHORTICQ for nonmajors, and historical CAS problems) are integral parts of the planning process and should be considered in developing the extent and frequency of CAS compliance tests.
3. Once it is determined that the standard is applicable and material to the government, the auditor should assess which provisions of the standard are significant to the contractor; the extent of reliance that may be placed on the contractor's system of internal controls to ensure compliance; and the results of other relevant audits (e.g., results of prior compliance audits, Disclosure Statement examinations, etc.). The decision to not test whether the contractor is complying with specific provisions of the standard should be documented.

<u>Staff Hours</u>		<u>W/P</u> <u>Ref.</u>	<u>Auditor's</u> <u>Initials</u> <u>and Date</u> <u>Complete</u>
<u>Budget</u>	<u>Actual</u>		

## C. PRELIMINARY AUDIT EFFORT (MAARs 1&3)

### 1. Research and Planning

- a. Read and become familiar with the criteria in CAS 411, CAM 8-411, and any recent Headquarters guidance not incorporated in CAM.
- b. Evaluate related Parts of the contractor's Disclosure Statement items (e.g. Parts II and III) to become familiar with the disclosed accounting practices. Determine if the contractor's accounting system has remained unchanged since the last CAS compliance audit. If changes have occurred, adjust audit scope accordingly.
- c. Evaluate recent forward pricing or incurred cost proposals to determine whether total costs subject to CAS 411 are material. Consider contractor's sales mix (i.e., CAS-covered government contracts vs. not-CAS-covered and commercial). If not material, discuss with supervisory auditor before continuing audit.
- d. Examine other FAO permanent file data (e.g. relevant audit leads, MAARs Control Log for MAAR's 11, Purchases Adjusting Entries and Exception Reports, and 13, Material Purchases Existence and Consumption, etc.) and prior relevant audit work packages to determine what data are available, what audit steps were done in the past, and the results from those steps. This will identify areas of high risk and/or areas where limited or no compliance testing is necessary. Document results.
- e. Discuss the planned compliance audit with the administrative contracting officer and, if

appropriate, other customers to identify, understand, and document any concerns they may have or areas which should be evaluated.

## 2. Entrance Conference and Preparation

- a. Arrange and conduct an entrance conference covering the areas highlighted in CAM 4-302 with particular emphasis on:
  - (1) Requesting the contractor's explanation of the internal control structure as related to CAS 411.
  - (2) Any changes since the last audit.
  - (3) The contractor's monitoring process for classifying costs.
  - (4) Any identified weaknesses which may have been reported and related follow-up actions.
- b. If reliance is to be placed on the work of others, the file should contain the required documentation (see CAM 4-1000).

## 3. Risk Assessment

- a. Examine the SHORTICQ or relevant ICAPS (whichever is applicable), to obtain information regarding accounting system adequacy, identify any known outstanding system deficiencies, and perform preliminary assessment of risk. Document results.
- b. If the contractor is classified as non-major (where ICAPS have not been completed) and if the evidential matter to be obtained during the audit is highly dependent on computerized information systems, document the audit work performed that supports reliance on the computer-based evidential matter. If the contractor's controls related to these systems

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<p>have not been specifically/adequately tested in other audits, the auditor needs to either (1) develop, document, and reference in B-2 the procedures/tests in this audit that will support reliance on the evidential matter or (2) qualify the audit in accordance with CAM 10-210.4a and 10-804.4a.</p>				
c.	<p>Document assessment of the contractor's internal control structure relative to this standard (control environment, accounting system, and relevant policies, procedures, and practices) to assure compliance with laws and regulations. Identify areas of potential high risk that would require increased transaction testing for compliance with CAS 411. The auditor should also document areas where limited or no transaction testing would be required based on the risk assessment of the above control objectives.</p>			
d.	<p>In planning and performing the examination, review the fraud risk indicators in CAM Figure 4-7-3 for applicability to this audit. Document in working paper B any identified fraud risk indicators and your response/actions to those identified risks (either individually, or in combination). This should be done at the planning stage of the audit as well as during the audit if risk indicators are disclosed. If no risk indicators are identified, document this in working paper B.</p>			
e.	<p>From the information gathered in the preceding steps and using the materiality criteria in 48 CFR 9903.305, identify and document the provisions of CAS 411 which are significant, assess the audit risk and determine the scope of audit and extent of compliance testing to be performed.</p>			

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f. Update the information in the permanent files as needed.

- (1) Consider other risk assessment information such as audit lead sheets from other relevant audits, CAC memorandums, the MAAR's control log and
- (2) Specialist and/or Supervisory Auditor.

#### **D. DETAILED AUDIT REQUIREMENTS**

NOTE: The evaluation of Policies and Procedures for compliance with CAS 411 requirements is mandatory for MMAS examinations. If a recent MMAS examination has been performed the steps below will have already been accomplished. Refer to the MMAS examination and incorporate the results of those audit program steps where applicable.

1. Determine that the contractor has and consistently applies written statements of accounting policies and practices for accumulating the costs of material and for allocating costs of material to cost objectives (CAS 411.40(a) and MMAS Standards 1 and 7). The written statements of policies and procedures should address:
  - a. Detailed descriptions of a material inventory record and an explanation on how it is used.
  - b. Detailed description of the contractor's practices regarding material adjustments (discounts, credits, extra charges, etc.)
  - c. Specific conditions and the requirements under which material costs may be directly allocated to cost objectives.
  - d. The inventory costing method to be used for allocating material costs issued from inventory.

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2. Determine that the written statements of accounting policies and practices are consistent with the requirements of CAS 411 (MMAS Standards 1 and 7).				
3. Material Management and Accounting System (MMAS) Standard 1, requires the contractor to provide an adequate system description, including policies and procedures, and operating instructions compliant with FAR/CAS criteria. Update the Material Internal Control Audit Planning Summary (ICAPS) as necessary				

NOTE: The following audit steps require transaction testing to validate compliance with the requirements of CAS 411. The nature, timing and extent of testing will be based on the Risk Assessment information as documented in WP section B. The auditor should be aware that tests of details may have already been performed, or may need to be performed, for current MAARS 11 (Purchases Adjusting Entries and Exception Reports), MAARS 13 (Material Purchases Existence and Consumption) and Material System (ICAPS) examinations. All tests of details performed for CAS 411 compliance examinations are also applicable to MMAS audits (MMAS Standard 7). The auditor should coordinate the testing of details, if possible, to incorporate the needs for the other evaluations to maximize audit resources. If testing for any of the other evaluations have been performed recently the auditor should consider incorporating the transaction testing results if possible.

4. Determine that the cost of a category of material is (CAS 411.50(a)):
  - a. The purchase price of material,
  - b. Adjusted for extra charges, discounts and credits that are charged to the same cost objective as the purchase price unless impractical.

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<p>c. If impractical, the auditor should determine that the contractor has a policy in place to provide for the allocation of such charges or credits to an appropriate indirect pool, and that the practice is consistently followed.</p>				
<p>5. Verify that, except as provided for in steps 6 and 7 below, the costs of a category of material is accounted for in material inventory records (CAS 411.40(d)), such as card files, computer data, bin tags, or any other such informational record.</p>				
<p>a. Determine that when the cost of materials is issued from a company owned inventory, the costing method used is a consistent method which results in a systematic and rational costing of issues of material to cost objectives (CAS 411.50(b)). One of the following methods shall be used:</p>				
<p>(1) First-In, First-out (FIFO)</p>				
<p>(2) Moving average</p>				
<p>(3) Weighted average</p>				
<p>(4) Standard cost</p>				
<p>(5) Last-in, First-out (LIFO)</p>				
<p>b. Determine that the same costing method is used for similar categories of material. (CAS 411.50(c)).</p>				
<p>6. The costs of units of a material may be allocated directly to a cost objective provided the costs objective was specifically identified at the time the units were purchased or produced (CAS 411.40(b)). For materials charged directly, determine that the cost objective was specifically identified at the time the units were purchased or produced.</p>				
<p>7. Material may be allocated to an indirect pool, if it is used solely in performing indirect functions or it is not a significant element of production costs,</p>				



whether or not incorporated in an end product (CAS 411.40(c)). The auditor should determine that:

- a. Material allocated to an indirect pool are materials used solely in performing indirect functions, or
- b. The materials allocated to an indirect pool are not a significant element of production costs, and
- c. When the excess of ending inventory over beginning inventory of material allocated to an indirect pool is estimated to be significant in relation to total cost included in the pool, the cost of such unconsumed material is established as an asset at the end of the period by reducing the indirect cost pool by a corresponding amount (CAS 411.50(d)).

## E. CONCLUDING AUDIT STEPS

1. Summarize the results of audit.
2. Discuss results with the supervisor or the FAO technical specialist. The auditor should only report those noncompliances which are considered material (see CAM 8-302.7).
3. Coordinate significant or unusual issues with the ACO, FAO Manager, and if applicable, with the CAC, CHOA, or GAC network (see CAM 8-302.4& 8-302.6). Coordination should be both before and after discussion of results with the contractor. The ACO should be apprised of noncompliance matters at the earliest possible date. If a noncompliance is considered immaterial, recommend to the ACO that the contractor be notified to reserve the Government's right should the cost impact become material (see FAR 30.602).

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4. Prepare draft audit report in accordance with CAM 10-805 (activity code 19411) when no instances of noncompliances are found, or CAM 10-806 (activity code 19200) when instances of noncompliances are found.				
5. Conduct an exit conference with the contractor in accordance with CAM 4-304.				
6. Finalize audit report incorporating the contractor's response and audit rejoinder, if applicable.				
7. Closing actions should be performed in accordance with FAO procedures. These procedures may require either auditors or administrative personnel to perform various closing steps. Completion of these closing actions should be documented in the working papers and should include:				
a. If the audit report has been electronically transmitted to the customer, file the signed original report in the audit working paper package. Otherwise, file a copy of the signed report.				
b. Include a printed copy of the final draft audit report containing the supervisory auditor's initials and date on the top page, cross-referenced to the working papers, in the working paper package. The final draft report should include all substantive changes made to the original draft, with cross-referencing updated as necessary. It should differ from the final report only due to minor administrative changes (spelling, format, etc.) made during final processing.				
c. Include an electronic version of the acknowledgement letter in the audit working paper package.				

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d. Include hardcopy printouts of the Administrative and Audit Working Papers indexes, including the supplemental listing of electronic files, in the working paper package.				
e. Ensure all working paper files are "read only" and, if necessary, compressed for final storage. Generally, current Agency software should be used to automatically modify all electronic files for storage.				
f. Two complete sets of electronic working papers must be prepared. The "original" set should be stored in the working paper package. The "archive" set is to be stored separately from the working paper package on removable media such as CD-ROM or diskette. If there will be a short-term need to access the working papers, a third, or "working" set should be stored so as to be available for reference, generally on the LAN. This set should be deleted when no longer needed.				
g. Verify that electronic files stored on removable media are not corrupted and can be unarchived.				
h. Securely enclose the "original" set of electronic files in the working paper package.				
8. Update the permanent files as necessary, i.e., ICAPS or SHORTICQ, and Mandatory Annual Audit Requirements schedules. <i>Ensure that a copy of DMIS Report No. CAS 3 entitled "CAS Compliance Testing (Activity Code 194XX)" is included in the permanent file after the assignment has been closed in DMIS.</i>				

## **TOTAL HOURS**